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NATIONAL INTELLIGENCE DAILY CABLE

Monday January 17, 1977 CG NIDC 77-013C

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NATIONAL SECURITY INFORMATION
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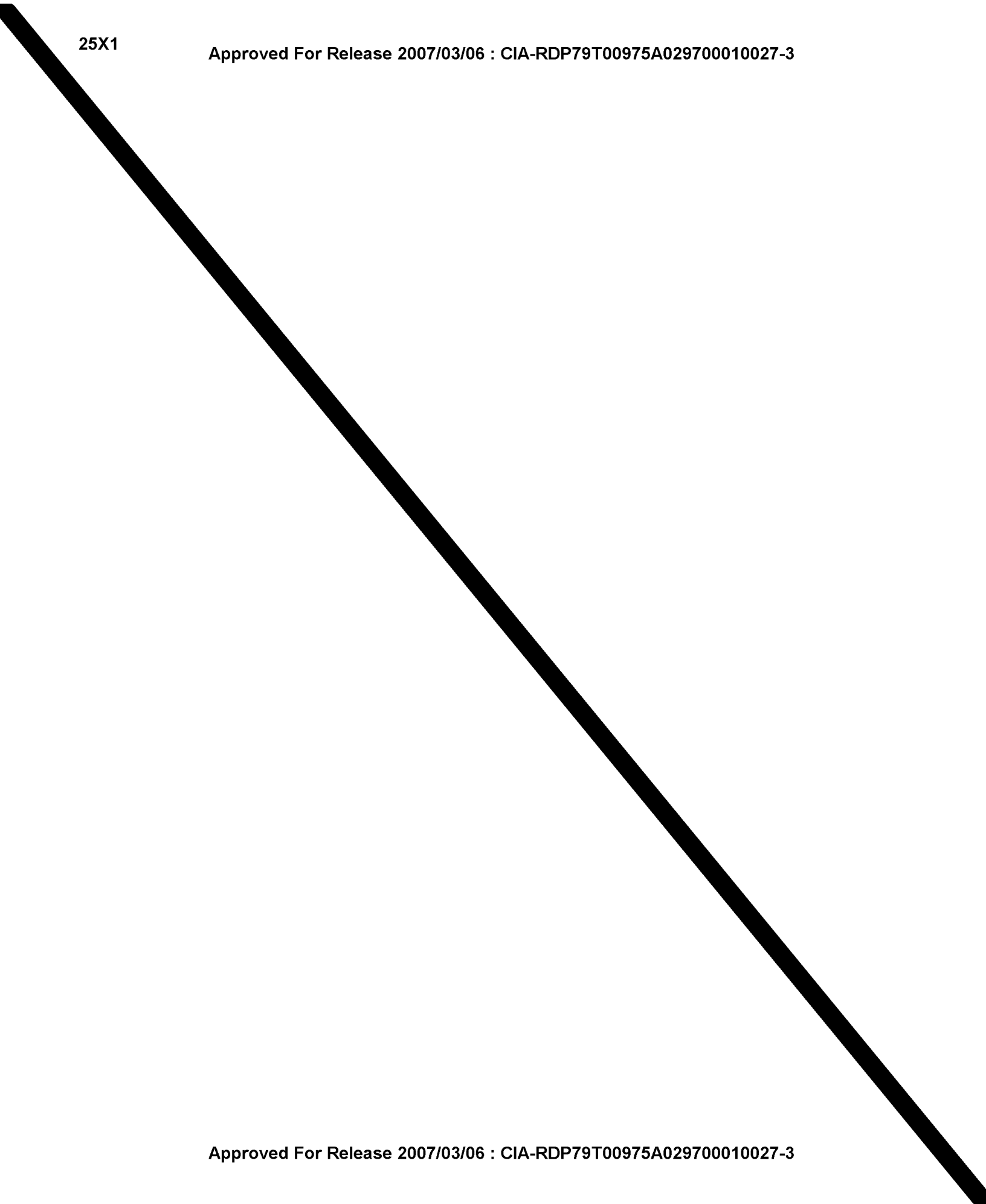

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National Intelligence Daily Cable for Monday, January 17, 1977.

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The NID Cable is for the purpose of informing senior US officials.

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EGYPT-JORDAN: Sadat, Husayn Statement

25X1 Egyptian President Sadat and Jordanian King Husayn issued a joint statement over the weekend calling for a Palestinian state with strong ties to Jordan and for resumption of Geneva peace talks with the Palestine Liberation Organization participating as an equal, independent party.

25X1 The statement appears designed primarily to underscore current Arab solidarity and to maintain pressure on Israel and the US to move toward serious Middle East negotiations later this year. By enlisting Husayn's support, Sadat hopes to discourage Israeli leaders from believing they can split the Arab camp on the issue of PLO participation in negotiations.

25X1 At the same time, Sadat has again suggested the possibility of a compromise that would facilitate the establishment of a Palestinian state, at least on the West Bank, and still satisfy the Israeli demand that the Palestinian question be resolved within a Jordanian context. At a minimum, Sadat probably hopes to play up a positive, peace-seeking image for the Arabs and thus put the onus on the Israelis should no progress be made toward negotiations.

25X1 Sadat has also clearly stepped up pressure on the PLO to accept both a compromise solution and the idea of a truncated Palestinian state. The PLO thus far has not rejected either possibility. Over the weekend, a PLO spokesman in fact endorsed the idea of closer relations with Jordan.

25X1 This moderate stance probably reflects the perception of PLO leaders that they have no alternative at this point but to follow the lead taken by the major Arab leaders.

25X1 Husayn, for his part, has probably gone along with Sadat for similar reasons, fearing that to oppose Egypt now would leave Jordan isolated in the Arab world. Sadat may have given him some vague reassurances of support to assuage his apprehensions about the PLO's aims. Husayn, moreover, may privately believe that the proposal for a Jordanian-Palestinian compromise will never really get off the ground. 25X1

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THAILAND: Dissatisfaction with Thanin

25X1 //Thai military dissatisfaction with Prime Minister Thanin may be reaching a critical point. Members of the ruling military council are reportedly considering the establishment of a new administration, although they have agreed to give Thanin another 60 days to demonstrate a greater ability to deal with the country's pressing political and economic problems.//

25X1 //Military leaders have been uncomfortable with Thanin since almost immediately after his selection as prime minister following the military coup last October. His reputation as a jurist of spotless integrity and an academic specialist on counterinsurgency suggested that he would be both acceptable to the public and politically compatible with the

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military. The extremism of his right-wing views, however, has been disquieting to many Thai and somewhat at odds with the consensus of Thai leaders that some kind of relationship must be established with their Indochinese neighbors as well as improved relations with Peking.//

25X1 //Thanin has been more restrained in his public statements lately, but the military is impatient with his general lack of movement on a wide variety of national problems, ranging from relations with Hanoi to foreign investment regulations.//

25X1 //Some members of the military council, largely from the army, would like the military to take a more direct role in running the government, reasoning that since they bear the ultimate responsibility for developments since October, they ought to have more direct control over government decisions.//

25X1 //The leaders of the council, however, are concerned that such a move would expose them to the international and domestic charge that Thailand is a military dictatorship. They clearly would prefer to continue blending the military's role into a civilian apparatus--a preference that may continue to restrain them from removing Thanin.//

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25X1 retired Air Chief Marshal Thawi Chunlasap is a likely successor to Thanin. In view of Thawi's reputation for corruption, his appointment would do little for the government's image. Indeed, a government shakeup so soon after the coup would only add to the impression of a tentative and fumbling regime little different from the parliamentary administrations it replaced. 25X1
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BENIN: Aftermath of Coup Attempt

25X1 //The US embassy in Cotonou is anticipating a possible anti-white backlash following yesterday's unsuccessful attempt to overthrow Beninese President Kerekou. A small invading party was repelled by government troops after landing at Cotonou airport.//

25X1 //Some of the invaders may have been left behind, when their aircraft left hurriedly and government forces made a house-to-house search in the city.// The residence of the US ambassador, which is currently unoccupied, was reportedly fired upon by Beninese troops after two armed whites were seen nearby. Whites were reportedly shot in the streets between the residence and the Ministry of Foreign Affairs. Some whites are said to have been taken to a prison camp.

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FRANCE - ARAB STATES: Mirage F-1 Fighters Deal

25X1 The French ministerial delegate for armaments has privately denied press reports that France sold 200 Mirage F-1 fighters to Egypt and its partners in an arms production consortium--Saudi Arabia, Qatar, and the United Arab Emirates. 25X1 DIA the delegate said that not one plane had been sold and insisted he would be the first to know if a transaction were concluded.

25X1 Paris has been negotiating for over a year with Egypt and other members of the Arab Organization for Industrialization on a fighter deal that would involve the delivery of a small number of Mirages this year, with the remainder to be assembled in Egypt later. We do not know the exact status of those negotiations, but French Defense Minister Bourges promised during a recent visit to Cairo to provide French technical assistance in setting up an Arab arms industry.

25X1 Both the French and the Egyptian governments would like to conclude a fighter agreement, but there are many hurdles to overcome. The Egyptians want to build fighter aircraft in Egypt but have been unable to decide which aircraft they prefer. The Mirage F-1 is most frequently mentioned, but the French - West German Alpha Jet and the British Hawk are evidently still under consideration. Both would be cheaper and easier to build than the Mirage but are less effective combat aircraft.

25X1 France's Dassault aircraft-design firm would rather sell fighter planes outright than become involved in long-term manufacturing programs in an unstable region. Dassault and other French firms connected with the program fear ultimate nationalization of French interests in the Egyptian aircraft industry, and they question the permanence of the Arab Organization for Industrialization as a source of funds. They also are skeptical about finding technicians in their companies willing to work in Egypt.

25X1 Dassault and other firms have agreed nevertheless to give the Arab Organization for Industrialization assembly rights for a French fighter in order to conclude a deal, provided the French government guarantees their investments. Paris thus far has balked at such an arrangement.

25X1 //The success of an assembly or manufacturing project would ultimately depend on the conservative oil states' willingness to finance Egypt's aircraft industry. The cost of building the aircraft in Egypt would be higher than if they were produced in France. The Arab Organization for Industrialization was formed to reduce Arab dependence on foreign arms suppliers, and member states realize they will have to pay a premium for production rights and the accompanying technology transfers.//

25X1 Egyptian production of advanced weapons such as fighter aircraft, however, would not reduce Arab dependence on Western Europe for high-technology components, which the Arab industries are incapable of manufacturing.

25X1 Saudi Arabia, Qatar, and the UAE must also realize that although the Egyptians will be able to assemble fighters from imported parts in the foreseeable future, actual production remains a distant goal. Moreover, assembly in Egypt will be at significantly lower rates, and aircraft could be obtained faster by outright purchase from Europe.

25X1 Saudi Arabia, Qatar, and the UAE may ultimately decide to buy aircraft to rebuild the dwindling Egyptian aircraft inventory as well as to replenish their own inventories while the Arab Organization for Industrialization concentrates initially on producing simpler weapons systems requiring less technological expertise. 25X1

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ITALY: Economic Problems

25X1 [redacted] Italian government, labor, and industry officials have been negotiating for two months over the country's soaring labor costs, but political considerations are standing in the way of a comprehensive and direct attack on the problem. Without a broad incomes policy, the Andreotti government's austerity program--a package of tax increases and public service price hikes--will not be able to lay the groundwork for long-term economic stability and growth.

25X1 [redacted] The most difficult issue is Italy's wage indexing system, under which most wages rise automatically in response to increases in the cost-of-living index. The government agrees with foreign creditors, such as the International Monetary Fund, which have identified the escalator as the main factor behind Italy's high inflation rate--currently running at 20 percent. Late last year, Andreotti was able to institute a program to replace cost-of-living increases with government bonds for Italy's highest paid workers, but the unions have firmly resisted any further tampering with the escalator.

25X1 [redacted] Largely as a result of efforts by the Communist Party--the most influential party in the labor movement--the unions have left the door open to some reduction in labor costs through productivity-improving measures. Not even the Communists, however, have been able to persuade the unions to accept the government's latest proposal on the escalator issue itself--to pay the automatic increases semiannually instead of quarterly.

25X1 [redacted] The Communists' maneuvering room is limited by the reluctance of non-Communist labor leaders to accept changes in the escalator. They appear more sensitive than the Communists to rank-and-file objections on this score, and also fear that a cooperative labor stance would strengthen the Communists politically.

25X1 [redacted] For example, the Socialist who heads Italy's third largest labor confederation told the US embassy that his organization opposed a change in the frequency of escalator payments mainly because the proposal was advanced by the Communist labor confederation at the behest of Communist Party officials. In the Socialists' view, labor's acceptance of the

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proposal would increase the government's dependence on the Communists by proving that only they can convince the unions to go along with austerity-related sacrifices.

25X1 That is precisely what the Communists are trying to demonstrate by working for moderation in the labor movement. In addition, Communist economists appear to have accepted the argument that failure to reduce labor costs substantially would undercut Andreotti's austerity program. The Communists have a political interest in the success of the program, because it was their abstention in parliament that provided the crucial margin for its passage and because they have worked hard to persuade skeptical party supporters that the program will benefit them in the long run.

25X1 The resistance the Communists have encountered among the unions is one of the main reasons Andreotti is reluctant to tackle the labor-cost issue in parliament. The Prime Minister has not discarded that option, but he appears to be backing away from an earlier threat to submit legislation on the wage escalator if industry and labor fail to reach a voluntary agreement.

25X1 Andreotti would need Communist support to legislate a change in the escalator. By asking parliament to rule on the matter, however, Andreotti would put the Communists in a tight spot; they would have to choose between bringing down the government or supporting a government policy opposed by most of organized labor.

25X1 The Communists do not want to bring Andreotti down because they see no alternative that would better serve Communist interests in present circumstances. Despite their recent willingness to work discreetly on behalf of the government, however, the Communists would probably refuse to get out of step with labor publicly.

25X1 Because of these political obstacles, any progress on wage restraint is likely to come in the form of an agreement to produce labor-cost savings through such steps as a lowering of severance pay, a reduction in absenteeism, and increased labor mobility. The Communists, moreover, are now channeling their efforts toward persuading workers to hold down wage demands in a coming series of company-level contract negotiations.

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25X1 If the wage escalator remains intact, however, Italian unit labor costs will continue to run far ahead of those in other industrialized countries--with serious consequences for Italy's competitiveness and growth. 25X1

NATURAL RUBBER: Exporters Meet

25X1 The world's five major exporters of natural rubber--Malaysia, Indonesia, Thailand, Sri Lanka, and Singapore--are meeting in Geneva this week to discuss bringing the international rubber market under greater control.

25X1 Their plans, first proposed last November, call for setting floor and ceiling prices for natural rubber and establishing a buffer stock to dampen price movements. They also will seek consumer-country participation in a commodity agreement but will go ahead with their own plans in any event.

25X1 Market forces will prevent the producers of natural rubber from following the example of the Organization of Petroleum Exporting Countries in controlling price movements. The producers of synthetic rubber have substantial excess capacity, and demand for rubber is expected to grow only moderately over the next few years.

25X1 At the same time, however, oil-related increases in the price of synthetic rubber should provide a gradually rising floor price for natural rubber. Rising output of natural rubber could lead to a gradual narrowing of its price premium over synthetic rubber in the years ahead, but the producers of natural rubber will continue to enjoy a substantial cost advantage.

25X1 During the past three years, producers of natural rubber have benefited from improvements in market conditions. Oil-related increases in synthetic-rubber production costs have amounted to an estimated 17 cents per pound, compared with only 1.2 cents per pound for natural rubber, leading to some slowdown in the expansion of synthetic output. Costs to the least efficient producers of natural rubber reportedly are about 23 cents per pound, while the break-even point for producers of synthetic rubber ranges from 30 to 40 cents per pound, depending on the type of product.

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25X1 At the same time, demand for natural rubber has been spurred by the increased preference in Western Europe, Japan, Canada, and the US for radial tires, which use twice as much natural rubber as conventional tires. Cost factors and the shift in rubber demand in recent years halted the downward trend in natural rubber's share of the market, and by 1976 its share had risen to roughly one third of total consumption.

25X1 World demand for all types of rubber is expected to grow at about 4 percent annually and amount to about 14 million tons in 1980. This is substantially slower than the annual growth rate of about 6 percent that preceded the impact of oil price increases on the automobile and trucking industries. Through 1980 only a 3.3-percent annual growth in rubber use is projected for the motor vehicle industries of the US, Japan, and the four largest EC producers. These countries account for 63 percent of world rubber usage.

25X1 Rubber supplies are likely to be more than adequate to cope with the demand between now and 1980. The natural and synthetic rubber industries together will be able to produce 15 million to 16 million tons by 1980, some 15 percent more than projected consumption. The output of natural rubber by 1980 should be in the range of 4.3 million to 5 million tons, and the recent rise in prices and profitability could spur additional output.

25X1 Detailed industrial surveys in major producing countries indicate only a 15-percent increase in free-world synthetic rubber capacity by 1980, to 11 million tons. In 1975, the synthetic rubber industry was operating at only about 70 percent of capacity. Under the best of circumstances it probably will be operating at only 80 to 85 percent of capacity in 1980.

25X1 Natural rubber producers probably would meet with little success in any effort to drive up prices artificially in the years ahead, mainly because of the excess capacity in the synthetic rubber industry. This excess will continue to range between 1.5 million and 2 million tons--roughly the equivalent of one third of natural rubber sales. Rubber prices in general are nevertheless likely to show an upward trend because of rising costs for synthetic rubber.

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25X1 [redacted] Prices of rubber over the next several years are likely to be high enough to encourage rapid increases in natural rubber output. Given their cost advantage, producers of natural rubber will continue to earn good profits. Returns to low-cost producer countries, such as Malaysia, will be particularly high.

25X1 [redacted]

CHINA: Oil Predictions

25X1 [redacted] //China's potential as an oil exporter has been of interest since the 1973 Arab oil embargo, which coincided with China's first commercial sale of crude oil. Some predictions, made on the assumption that China has vast oil reserves and the financial and technological means to exploit them, have been unreasonably high.//

25X1 [redacted] Not even the Chinese know the size of their reserves. Working with limited information, scholars, oil companies, and the US Geological Survey generally agree that China's onshore oil reserves are comparable to the 39 billion barrels remaining in the US. We share this view.

25X1 [redacted] Offshore seismic studies by Japanese and Western oil companies are dampening hopes, however, that China's continental shelf might be one of the world's largest oil and gas reservoirs. The most optimistic estimates now suggest that China's offshore oil reserves are about the same as its onshore reserves.

25X1 [redacted] //Beyond the question of reserves, there are severe financial and technological restraints on increasing Chinese oil production and exports. For 26 years, the regime has force-fed the oil industry with funds and technical manpower. In response, output has grown 20 percent or more annually, much faster than the rest of Chinese industry. Crude output reached about 1.5 million barrels per day in 1975, comparable with that of Indonesia.//

25X1 [redacted] //Now, however, growth will certainly decline. The most accessible reserves are being exploited; investment in other industries, especially coal and steel, can no longer be held back to free funds for oil. Moreover, trained manpower

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is spread thin just to operate existing industry. Internal political conflicts have discouraged the influx of foreign capital and technology needed for rapid development of offshore reserves.//

25X1 //The estimated reserves of 20 billion to 33 billion barrels in the north and northeast--the regions likely to supply the bulk of output in the short run--would be exhausted in 10 years if output were to continue to grow at the present 20-percent rate. If the growth rate were to drop to 10 percent, expanding domestic demand might not be satisfied.//

25X1 //Developing western and offshore reserves fast enough to support recent growth trends may not be feasible without help from the international oil companies. Some foreign technology has been acquired through selective purchases of advanced equipment from the US and elsewhere--for use throughout the industry, from exploration through tertiary recovery--but not enough technology has been acquired to affect output potential substantially in the short run.//

25X1 //On balance, we believe that China will produce 2.4 million to 2.8 million barrels per day by 1980. Most of this oil will be needed for domestic consumption; exports are likely to be only 200,000 to 600,000 barrels per day. By the mid-1980s, continuously expanding domestic demand will absorb total capacity unless deposits in western China or offshore are proved and exploited much more rapidly than expected.//

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ARGENTINA: Debate over Labor Movement

25X1 The debate in Argentina over the political role of the country's powerful labor movement is sharpening.

25X1 A group of labor leaders has issued a strongly worded document calling for the swift normalization of union activities, which have been suspended since the military took over last March, and for further sizable wage hikes. The document was signed early this month by some 70 union leaders and printed in a leading newspaper.

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25X1 The document denounced the austerity measures that have been in effect since President Videla took power. The statement repeats familiar Peronist themes in making its case that workers have borne the brunt of the economic recovery effort. Portraying workers as the true benefactors of the nation, the document stresses the need to achieve "social justice" and end the exploitation of workers by unnamed "minority sectors." It refers caustically to the role of foreign business.

25X1 Editorials in Argentina's leading newspapers have lambasted the unions' position, accusing labor leaders of resorting to tired rhetoric to express a one-sided and self-serving view of the situation facing the nation. One journal points out that it was the excessive demands of workers during the administration of President Isabel Peron that in large part led to the nation's present financial straits.

25X1 Publication of these and other complaints has already led to divisions within the labor movement itself. Several union leaders who supported the statement have now resigned, according to a press account. The leaders of the principal labor confederation have reportedly accused the drafters of the document of committing a tactical error by publishing it prematurely.

25X1 This latest manifestation of the debate over labor is probably disconcerting to military officers, both inside and outside the government. The officers differ seriously over what degree of accommodation with labor is acceptable. Some, like President Videla and his supporters, favor quickly restoring most, though not all, of labor's former prerogatives. Others, particularly within the navy and air force, would retain many of the restrictions now in effect.

25X1 Probably no officer truly believes that labor can be won over and made to cooperate indefinitely with the military government. Videla, however, clearly feels that his conciliatory approach would at least avoid further worker alienation and increase the chances for economic progress in the interim. Others, however, argue that workers would take such concessions as a sign of weakness and thus be inclined to increase their demands.

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25X1 [redacted] The outcome of the debate will be decisive for Videla. If he has his way, he will have gained an important psychological and practical victory over the "hardliners," who have opposed him on this and other issues. If he loses out to them, 25X1 the result will be to embolden those who, like navy chief Admiral Massera and Planning Minister General Diaz Bessone, would like to change the government's political approach. [redacted]
25X1 [redacted]

ECUADOR: Maneuvering in the Junta

25X1 [redacted] //Ecuadorean General Luis Duran, army commander and member of the three-man ruling junta, is continuing his efforts to achieve sole control of the government. He reportedly hopes to get enough backing from army supporters to take over power this month. His chances for success are limited at best.//

25X1 [redacted] //The chief obstacle to his goal is opposition from field- and company-grade officers, who object to Duran's plan to retain his position as commander of the army while serving as president. Duran is unwilling to give up this base of power.//

25X1 [redacted] //Junta president Admiral Alfredo Poveda presents another obstacle. Poveda reportedly has been frustrated in his efforts to lead the country to civilian rule and would like to resign. He believes, however, that a takeover by Duran would doom the possibility of returning to a civilian government.//

25X1 [redacted] Duran apparently believes he can succeed in his efforts. Last month he forced the retirement of his chief rival, General Solon Espinosa, and subsequently sent Espinosa's backers in the army to military posts away from the capital. The transfers were carried out ostensibly to meet an alleged military threat from
25X1 Peru. [redacted]

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